

U.S. DEPARTMENT OF COMMERCE



MINORITY BUSINESS DEVELOPMENT AGENCY



U.S. Department of Commerce
Norman Y. Mineta, Secretary
Robert L. Mallett, Deputy Secretary

Minority Business
Development Agency
Courtland Cox, Director

The Emerging Minority Marketplace

U.S. DEPARTMENT OF COMMERCE

Issued September 2000

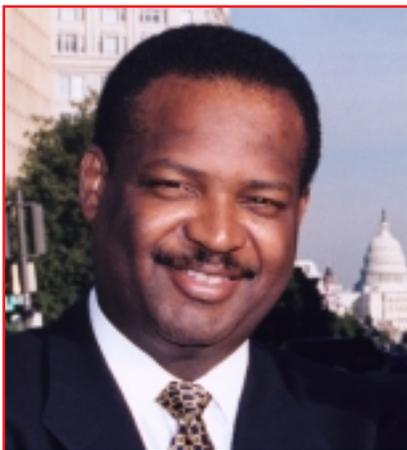
Minority Purchasing Power: 2000 to 2045





Secretary of Commerce
Norman Y. Mineta

“America’s population will increase fifty percent over the next fifty years, with almost ninety percent of that increase in the minority community. Both Fortune 1000 and minority businesses need to pay attention to the consumer purchasing power that will result from that growth. It is my hope that the information contained in this report will contribute to the National discussion about the economic benefits of minority business development for all Americans.”



Deputy Secretary of Commerce
Robert L. Mallett

“If America is to continue its position as the principal economic force in the global marketplace, it must include all members of its society in productive enterprise. As this report shows, purchasing power in the minority community will be getting much larger; therefore it is necessary to have a strong business and economic infrastructure that will serve both the minority community and all of America.”



Director of the Minority Business
Development Agency
Courtland Cox

Preface

The Minority Business Development Agency (MBDA) commissioned the Census Bureau to prepare a series of reports on The Emerging Minority Marketplace. This latest report on “Minority Purchasing Power: 2000 to 2045” represents the first attempt ever to project future purchasing power in the minority community. The rapidly growing minority population in the United States today represents a \$1.3 trillion consumer marketplace that is projected to grow to at least \$4.3 trillion and as much as \$6.1 trillion by the year 2045. This is a lucrative marketplace for minority-owned firms that are looking for growth opportunities and for large corporations that want to establish strategic partnerships with minority-owned businesses.

One of MBDA’s priorities is to organize and disseminate information for and about minority business. Visit our Internet Web site at www.mbda.gov for more detailed information about The Emerging Minority Marketplace and other market and capital opportunities.

Minority Purchasing Power: 2000 to 2045

How has the economic status of the United States' Minority¹ population changed in the 1990s? The Census Bureau's data on aggregate money income for the Minority population 15 years old and over show an increase of 47 percent, from \$0.7 trillion in 1990 to \$1.0 trillion in 1998 (both in 1998 dollars).² This growth was more

rapid than that for the non-Minority (non-Hispanic White) population (18 percent). As a result, the Minority share of the total aggregate money income grew from 16 percent to 19 percent during this period.

The Minority population will grow rapidly in the 21st century. According to the U.S. Census Bureau's middle series of the national population projections released in January 2000, the combined race and ethnic minority population will grow from 79 million in 2000 to 178 million in 2045 (Table 1). Minority population growth is equivalent to 86 percent

of the total population growth during these 45 years. The Minority share of the total U.S. population is projected to increase from 29 percent in 2000 to 46 percent in 2045. Under the middle series projection, the Minority population is projected to surpass the non-Minority (non-Hispanic White) population between 2055 and 2060, thus representing over 50 percent of the total U.S. population.

With their projected increasing population share, the Minority share of the U.S. economy is expected to grow as well. This report illustrates projected Minority purchasing power for the period

¹ The term "Minority" in this report is used to represent the combined population of people who are American Indian and Alaska Native, Asian, Black or African American, Native Hawaiian and Other Pacific Islander, or Hispanic or Latino (who may be of any race). For analysis of population projections by race and ethnic groups, see the Minority Business Development Agency report, *Minority Population Growth: 1995 to 2050*, September 1999.

² The aggregate money income for the Minority population ranged from \$706 billion in 1990 to \$1,036 billion in 1998. Source: U.S. Census Bureau, Current Population Survey, March Supplements 1991 through 1999.

TABLE 1.
Projected Total and Minority Population: 2000 to 2045
(Millions. Resident population)

Year	Lowest Series			Middle Series			Highest Series		
	Total	Minority	Percent Minority	Total	Minority	Percent Minority	Total	Minority	Percent Minority
2000	274.9	78.3	28.5	275.3	78.6	28.6	275.8	79.0	28.6
2005	284.0	85.8	30.2	287.7	88.3	30.7	292.3	91.6	31.3
2010	291.4	92.4	31.7	299.9	97.9	32.7	310.9	105.6	34.0
2015	298.0	98.5	33.1	312.3	107.7	34.5	331.6	121.0	36.5
2020	303.7	104.3	34.4	324.9	117.8	36.2	354.6	138.1	39.0
2025	308.2	109.9	35.7	337.8	128.5	38.0	380.4	157.6	41.4
2030	311.7	115.4	37.0	351.1	140.1	39.9	409.6	180.2	44.0
2035	313.8	120.7	38.5	364.3	152.3	41.8	441.6	205.5	46.5
2040	314.7	125.6	39.9	377.3	164.9	43.7	475.9	232.9	48.9
2045	314.5	130.0	41.3	390.4	177.7	45.5	512.9	262.6	51.2

Source: Data are based on U.S. Census Bureau, 2000, *Annual Projections of the Resident Population by Age, Sex, Race, and Hispanic Origin: Lowest, Middle, Highest, and Zero International Migration Series, 1999 to 2100 (NP-D1-A)*, Washington, DC. <http://www.census.gov/population/www/projections/natdet.html>

from 2000 to 2045. As a continued part of *The Emerging Minority Marketplace* series published by the Minority Business Development Agency (MBDA), this report provides a simple and illustrative description of what the growing Minority purchasing power may become by the middle of the 21st century. It is intended to provide a broad indication of the future potential of Minority population and economic growth, and may serve as a useful tool for future in-depth studies on Minority economic power and market value. The scope of this report is limited to minority race and ethnic groups as one combined group at the national level. MBDA is planning to develop an online research tool on its Web site (www.mbda.gov) for users to derive future purchasing power with alternative assumptions and by race and ethnic groups or geographic areas.

Purchasing power in this report is defined as disposable personal income (personal income less personal tax and nontax payments).³ Data for the total U.S. aggregate personal income are based on *BEA Regional Projections to 2045*, published by the Bureau of Economic Analysis (BEA), U.S. Department of Commerce, in 1995. We converted the BEA projections of total personal income to 1998 dollars and adjusted to disposable personal income in the analysis for this report.

Minority purchasing power is computed from the projected Minority share of total purchasing power. We derive the Minority share of purchasing power on the basis of the projected Minority share of the total population adjusted by an Income Disparity Factor (IDF). We assume that growing Minority economic power will be related to its increasing population share. The IDF is derived from averaging a number of

income disparity indicators from the Census Bureau's Current Population Survey (CPS) income data⁴ and other studies on purchasing power of minority race and ethnic groups in the 1990s.

As a conservative assumption, the IDF is assumed to remain constant throughout the projections for our primary analysis. Observed

⁴ In contrast to the BEA data, the CPS contains economic data by race and Hispanic origin.

TABLE 2.
Projected Total and Minority Purchasing Power: 2000 to 2045
(Projected disposable personal income in billions of 1998 dollars)

Year	Total	Middle Population Growth Assumption			
		Constant Income Disparity		No Income Disparity by 2045	
		Minority	Percent Minority	Minority	Percent Minority
2000	6,548	1,329	20.3	1,329	20.3
2005	7,232	1,577	21.8	1,649	22.8
2010	7,917	1,837	23.2	2,003	25.3
2015	8,595	2,106	24.5	2,392	27.8
2020	9,277	2,390	25.8	2,822	30.4
2025	9,960	2,692	27.0	3,301	33.1
2030	10,810	3,065	28.4	3,897	36.1
2035	11,660	3,465	29.7	4,562	39.1
2040	12,510	3,884	31.1	5,290	42.3
2045	13,360	4,321	32.3	6,080	45.5

³ Source: Bureau of Economic Analysis News Release: *Personal Income and Outlays: January 2000*, released on February 28, 2000.

Source: Data are based on Bureau of Economic Analysis, 1995, *BEA Regional Projections to 2045*, Washington, DC.

trends indicate that the income disparity between Minority and non-Minority throughout the 1990s was relatively stable. The primary series of future purchasing power is derived based on the middle population growth series in the population projections released by the U.S. Census Bureau in January 2000. Non-Minority purchasing power is derived as a residual by subtracting Minority purchasing power from total purchasing power.

(See the Data and Methodology section for a detailed description.)

By 2045, Minority purchasing power may reach \$4.3 trillion (1998 dollars) . . .

The total disposable personal income for the United States is projected to increase from \$6.5 trillion in 2000 to \$13.4 trillion in 2045 (Table 2). Applying the Minority population share in 2000 (29 percent) and an IDF (0.71),

Minority purchasing power in 2000 is projected at around \$1.3 trillion. Keeping the IDF constant throughout the projection period, Minority purchasing power may surpass \$2 trillion by 2015, \$3 trillion by 2030, and by 2045, Minority disposable personal income may reach more than \$4 trillion (Figure 1). This represents an increase of \$3.0 trillion during the 45-year period, or more than triple the purchasing power of 2000.

. . . or as high as \$6.1 trillion (1998 dollars) if income disparity were eliminated by 2045.

An additional, illustrative projection of Minority purchasing power was derived for this report, also based on the Census Bureau's middle population growth series, but assuming that income disparity is eliminated completely by 2045. That is, we assumed that the IDF increased from 0.71 in 2000 to 1.00 in 2045. Under this assumption, Minority purchasing power could reach \$6.1 trillion in 2045.

Minority population may contribute 44 percent, or as much as 70 percent, of the total increase of purchasing power from 2000 to 2045.

During the 45 years of the projection, total purchasing power is projected to grow by \$6.8 trillion. Of the total increase, \$3.0 trillion, or 44 percent, would come from the Minority population under the "constant income disparity" assumption.

Based on the "no income disparity in 2045" scenario, the growth in Minority purchasing power

FIGURE 1.
Projected Minority Purchasing Power: 2000 to 2045
(Trillions of 1998 dollars)

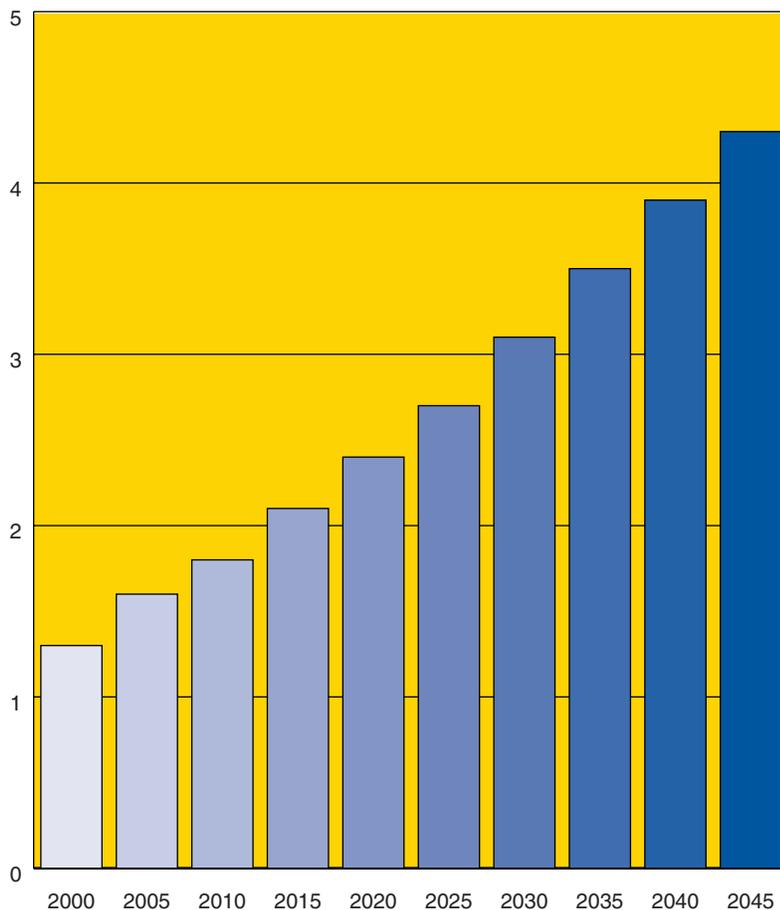
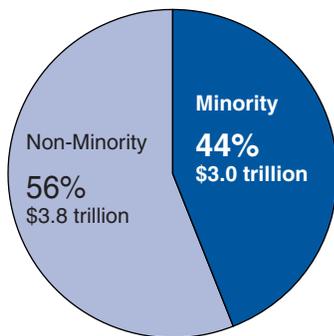
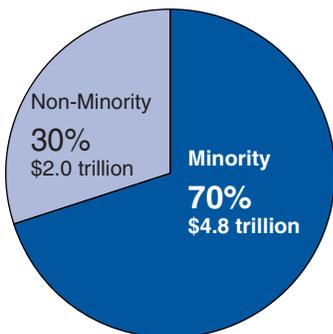


FIGURE 2.
Projected Minority Share of Total Increase in Purchasing Power Under Alternative Income Disparity Factor Assumptions: 2000-2045
(Total increase: \$6.8 trillion)

Constant Income Disparity



No Income Disparity in 2045



could represent 70 percent of the total growth in purchasing power during the 45-year period, 2000 to 2045. This can be considered an upper bound on future purchasing power, showing what could occur if the Minority economic share is equivalent to its population share, thus illustrating the potential of the Minority marketplace (Figure 2).

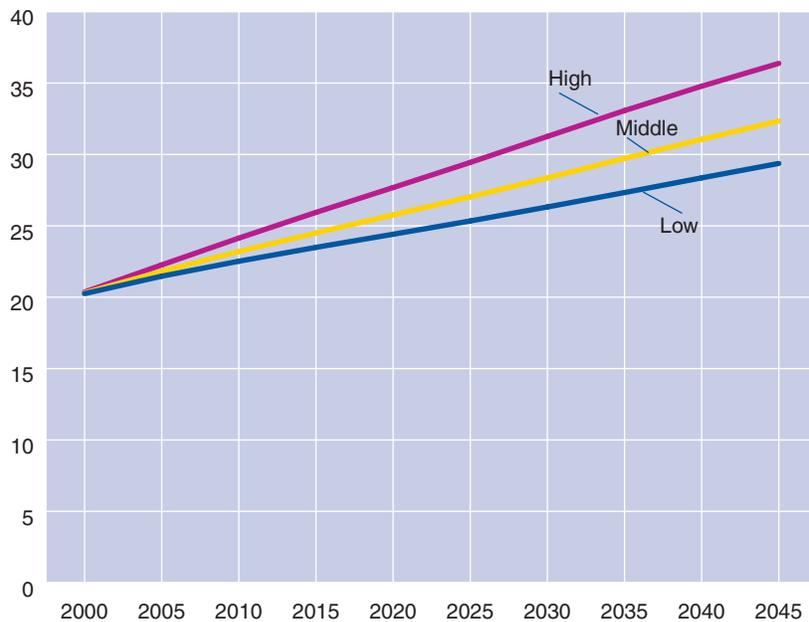
Minority purchasing power may represent an increasing share of total purchasing power, from 20 percent in 2000 to 32 percent in 2045.

The Minority share of total purchasing power will be steadily increasing. This share will vary depending on the future growth of

the Minority population. Three scenarios of Minority share of total purchasing power are derived based on the Census Bureau’s lowest, middle, and highest population growth assumptions, adjusted by a constant IDF of 0.71 (Figure 3). Under the middle scenario, the Minority share of total purchasing power will increase by slightly more than 1 percentage point every five years. The low scenario projects an increase of 1 percentage point in purchasing power every five years, and the high scenario nearly a 2 percentage point increase per 5-year period.

Using the Census Bureau’s middle population growth assumption, Minority purchasing power is

FIGURE 3.
Projected Minority Share of Purchasing Power: 2000 to 2045
(Percent of total disposable personal income)



projected to represent 20 percent of total purchasing power in 2000. In 2045, the Minority share may reach 32 percent. This indicates that by the end of the projection period, about one-third of the national total disposable personal income may come from the Minority population, compared to only about one-fifth today. This is an important implication for The Emerging Minority Marketplace.

The Minority economic share is assumed to continue to lag behind its population share by 2045.

However, the primary analysis in this report assumes that income disparity will still exist by 2045 and

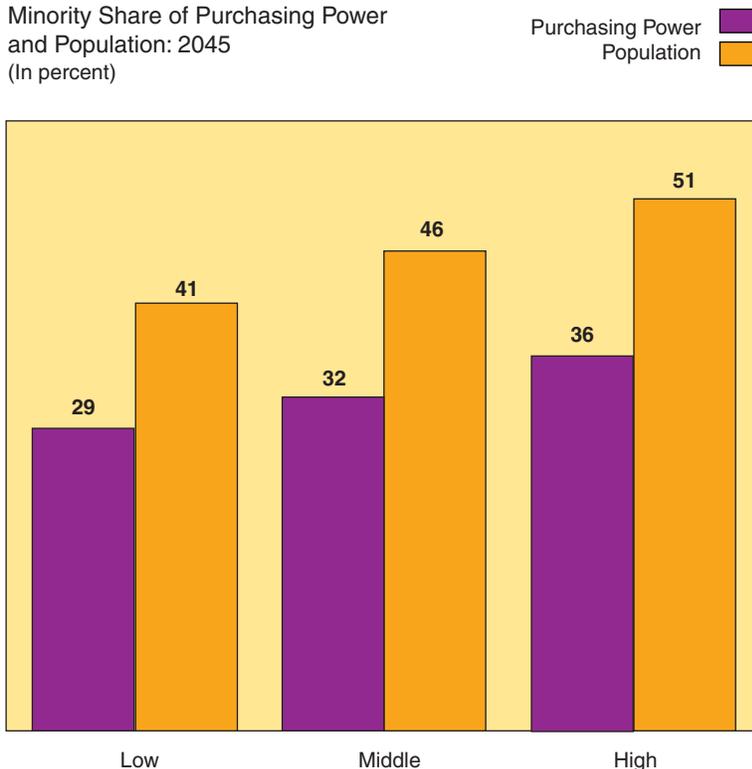
that the Minority share of total purchasing power may continue to represent around two-thirds of its population share throughout the projections. According to the national population projections by the Census Bureau, the Minority population will surpass the non-Minority (non-Hispanic White) population before 2045 in the highest series, before 2060 in the middle series, and before 2085 in the lowest series. The Minority population share of the total population in 2045 will be 41 percent in the lowest series, 46 percent in the middle series, and 51 percent in the highest series. By contrast, the projected Minority purchasing power ranges from 29

percent to 36 percent of total purchasing power in 2045 (Figure 4).

To enable users to make their own assumptions about income disparity, the Minority Business Development Agency (MBDA) is planning to develop an online research tool accessible on the MBDA Web site: www.mbda.gov. Initially, this tool is expected to allow for the input of user-specified IDFs for the Minority population at the national level, thus providing the ability to generate alternative purchasing power levels to those derived for this report. Future plans include the development of similar options for users to generate purchasing power projections for individual minority race and ethnic groups and for subnational areas. These versions of projecting purchasing power will use the same economic share-population share relationship assumed in this report, and will be limited to the extent that appropriate data are available.

With regard to subnational areas, specifically states, both the Census Bureau's most recent population projections and BEA's economic projections were last released in 1996 and 1995, respectively. Updating these two sets of projections is clearly required to improve the derivation of purchasing power estimates at the subnational level. In addition, introducing a race and ethnic origin component and/or more than one economic projection assumption into the BEA projection methodology would greatly augment the database needed for future studies of Minority purchasing power.

FIGURE 4.
Minority Share of Purchasing Power
and Population: 2045
(In percent)



The projected Minority purchasing power in this report is defined as:

$$\text{PMPPt}_{1,\dots,n} = \text{PTPPt}_{1,\dots,n} * \text{PMPt}_{1,\dots,n} * \text{IDFm},t_1$$

where:

$\text{PMPPt}_{1,\dots,n}$ = Projected Minority Purchasing Power for a given year.

$\text{PTPPt}_{1,\dots,n}$ = Projected Total U.S. Purchasing Power for a given year.

$\text{PMPt}_{1,\dots,n}$ = Projected Minority proportion of the total population for a given year.

IDFm,t_1 = Income Disparity Factor for the Minority population for Year 1.

Data and Methodology

Data for the total U.S. aggregate personal income are based on *BEA Regional Projections to 2045*. The Census Bureau made several adjustments to the BEA data for this report. In consultation with BEA, we first converted the projections from the original 1987 dollars to 1998 dollars, using the ratio (1.57) between BEA's February 2000 estimates of historical 1998 total personal income and BEA's projected 1998 total personal income.⁵ Then, we converted the projected personal income data to projected disposable personal income using the ratio (0.85) between 1998 disposable personal income and 1998 total personal income from BEA's historical estimates. Lastly, since BEA's

⁵ BEA's projected personal income differs from BEA's historical estimates of personal income in that the projections do not include personal contributions for social insurance.

projections include only the years 2000, 2005, 2010, 2015, 2025, and 2045, for simplicity, we linearly interpolated values for the years 2020, 2030, 2035, and 2040, using data for the adjacent years for which BEA data were available.

The projected Minority purchasing power in this report assumes a positive relationship between Minority population growth and their economic power. It also weighs in the relationship between the Minority share of total population and its share of total personal income. (See the box above.)

Data used to derive the Minority proportion of the total population are based on *Annual Projections of the Resident Population by Age, Sex, Race, and Hispanic Origin: Lowest, Middle, Highest, and Zero International Migration Series, 1999 to 2100 (NP-D1-A)*, released by the U.S.

Census Bureau, January 2000.⁶

This Internet release includes three series based on the highest, middle, and lowest assumptions of each component of population growth.

In the process of determining our Income Disparity Factor (IDF), we considered several indicators for income disparity and computed implied adjustment factors from other studies of purchasing power for minority race and ethnic groups in the 1990s. First, from the Census Bureau's CPS money income of people,⁷ we computed the 1998 Minority share of total personal income for people 15 years and over (19 percent), and their share of the total population 15 years and over (27 percent). We obtained the ratio (0.71) between these two percentages. This IDF is an indicator of the difference between Minority economic power and their population size.

Based on the same theoretical framework, we calculated the implied IDF (0.80) for households with a Minority householder using unpublished 1998 CPS household income data, and an implied

⁶ This report uses the newly released (January 2000) population projections, while the previous report in The Emerging Minority Marketplace series, *Minority Population Growth: 1995 to 2050* (issued in September 1999) used the population projections published in February 1996 for the national population analysis. While the percent Minority remains similar for both sets of projections throughout the 50 years (2000 to 2050), there are differences in total, Minority, and individual minority race and ethnic group populations.

⁷ The "money income of people" used by the Census Bureau/CPS is not identical to the "personal income" used by BEA. The Census Bureau's money income focuses on cash regularly available to individual people 15 years and over, and BEA's personal income is more comprehensive and includes other sources of noncash income such as employer contributions to private pension and welfare funds, the rental value of owner-occupied homes, and public assistance medical care.

adjustment factor from the buying power series by the Selig Center, University of Georgia⁸ (0.62 in 1999). We also derived, from the unpublished 1998 CPS income data, the ratio (0.72) between the Minority's median money income of people and the non-Minority's median money income, and the ratio (0.71) between the Minority's mean money income and the non-Minority's mean money income. The five implied IDF's we derived fell into the range of 0.62 to 0.80, and we selected their average (0.71) as our benchmark IDF.

We assumed that our benchmark IDF would remain constant throughout the projection period for our primary analysis. By keeping our IDF's unchanged, our projected Minority purchasing power may be considered a conservative estimate. The income disparity indicators from CPS personal income data throughout the 1990s and implied adjustment factors for 1990 and 1999 that we derived from the Selig Center's series indicate that the income disparity between Minority and non-Minority throughout the 1990s remained relatively unchanged. To forecast future trends in this economic relationship would be problematic given existing data and methodology.

⁸ To obtain an implied adjustment factor using the Selig Center's results (see www.selig.uga.edu), it was necessary to make certain assumptions to combine their findings for individual minority race and ethnic groups into a combined Minority category. This procedure used Census Bureau population estimates by race and Hispanic origin to scale down the Selig Center population and dollar estimates by race. This calculation adjusts for their inclusion of Hispanics in their individual race group estimates. The summation of these adjusted totals for individual groups then produced aggregated Minority totals.

In the report, we also projected Minority purchasing power assuming an IDF of 1.00 in 2045. This hypothetical projection assumption provides a glimpse of Minority purchasing power if income inequality were eliminated altogether by the end year of BEA's economic projections. For future studies of Minority purchasing power, more comprehensive and sophisticated methodologies or new data will be needed to improve the estimation and projection of the levels and trends of income disparity.

Accuracy of Projections

Two sets of projections data were used in this report — *BEA Regional Projections to 2045*, published in July 1995, and the Census Bureau's *Annual Projections of the Resident Population by Age, Sex, Race, and Hispanic Origin: Lowest, Middle, Highest, and Zero International Migration Series, 1999 to 2100 (NP-D1-A)*, released in January 2000. For detailed methodological descriptions of these economic and population projections, see "Methods Used to Prepare the Projections" in *BEA Regional Projections to 2045*, "Regional and State Projections of Economic Activity and Population to the Year 2005," *Survey of Current Business 75 (July 1995): 44-50*, and U.S. Census Bureau, 2000, Population Division Working Paper No. 38, *Methodology and Assumptions for the Population Projections of the United States: 1999 to 2100*.

BEA's total personal income is calculated as the sum of the components which include earnings by place of work less personal contributions for social insurance, a residence adjustment, transfer payments, personal dividend income, personal interest income, and rental income of persons.

The BEA long-term national projections were based on Census Bureau national population projections and Bureau of Labor Statistics national employment and output projections. They were generally based on historical trends in economic relationships among national variables. The projections of personal income and earnings were based mainly on projections of gross domestic product (GDP). The projections of GDP were derived from projections of a succession of population and labor-force variables. The projections of industry employment, GDP, and earnings were based mainly on historical trends in each industry's share of the national all-industry total.

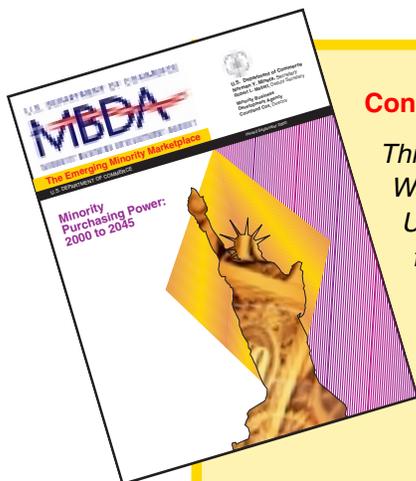
The BEA long-term state projections were mainly based on historical trends in economic relationships for each state and between each state and the Nation. The projections of employment by industry were based on relationships between "basic" industries that mainly serve national markets and "nonbasic" industries that mainly serve state markets. The projections of gross state product (GSP) and earnings were based on the projected total state

employment. The projection of the components of total personal income except earnings were based on the projected earnings and population.

The Census Bureau's newly released national population projections include projections of the population by single year of age, sex, race, Hispanic origin, and nativity. Future populations are based on an estimated resident population as of January 1, 1999, derived primarily from the 1990

census as enumerated. The base series is projected forward using the cohort-component method for future fertility, mortality, and net immigration levels. Variant assumptions for each component individually are applied to the projections to produce the projections between which most likely outcomes should fall. This report uses the three series based on the highest, middle, and lowest assumptions of each component.

As with any projections data, predicted future economic activity or population will never be identical to the actual future economy or population, which are highly subject to government policy decisions, behavioral decisions by individuals, changed economic relationships, and possible unexpected developments in health and morbidity. Therefore, precautions should be used when interpreting the results from this report.



Contact

This report was prepared by Wan He and Frank Hobbs of the U.S. Census Bureau and funded by the Minority Business Development Agency, U.S. Department of Commerce.

For further information and additional copies, contact:

Richard L. Stevens
Chief, Office of Market Access
Room 5093
Minority Business
Development Agency
U.S. Department of Commerce
Washington, DC 20230
202-482-4671
rstevens@mbda.gov

or visit MBDA's Web site at
www.mbda.gov

The Emerging Minority Marketplace Product Series

Product	Format	Anticipated Release Date
Minority Population Growth: 1995 to 2050 <i>Summarizes the major demographic shifts in an 8-page report. Includes text, maps, charts, and tables.</i>	Printed Report PDF color on www.mbda.gov PDF black & white on www.mbda.gov HTML on www.mbda.gov Searchable CD-ROM	Available Available Available Available September 2000
Dynamic Diversity: Projected Changes in U.S. Race and Ethnic Composition 1995 to 2050 <i>A more detailed version of Minority Population Growth: 1995 to 2050. Includes text, maps, charts, and tables.</i>	PDF color on www.mbda.gov HTML on www.mbda.gov Printed Report Searchable CD-ROM	Available Available September 2000 September 2000
Federal Datalink: A Guide to Federal County-Level Data <i>Federal data sources for market researchers and analysts. Includes hyperlinks to online databases. (99 pages)</i>	PDF color on www.mbda.gov HTML on www.mbda.gov Searchable CD-ROM	Available Available September 2000
Mapping Minority Markets: County-Level Maps of U.S. Population and Business Data <i>Over 80 maps of the spatial distribution of population groups and businesses.</i>	HTML on www.mbda.gov PDF color on www.mbda.gov Searchable CD-ROM	Available Available September 2000
U.S. Census Bureau Data Variable Matrix <i>Availability of market research variables at the national, state, and county levels. (27 pages)</i>	PDF color on www.mbda.gov HTML on www.mbda.gov Searchable CD-ROM	Available Available September 2000
Minority Purchasing Power: 2000 to 2045 <i>Estimated future purchasing power in the minority community.</i>	Printed Report PDF color on www.mbda.gov PDF black & white on www.mbda.gov HTML on www.mbda.gov Searchable CD-ROM	September 2000 September 2000 September 2000 September 2000 September 2000

MBDA Web site
www.mbda.gov

For more information
 Visit **OR** Call

Minority Business Development Agency
 Office of Market Access
 202-482-4671

